Before the FEDERAL COMMUNICATIONS COMMISSION Washington, DC 20554

In the Matter of)	
Petition of Image Access, Inc. d/b/a)	
NewPhone for Declaratory Ruling)	WC Docket No. 06-129
Regarding Incumbent Local Exchange)	
Carrier Promotions Available for Resale)	
Under the Communications Act of 1934,)	
As Amended, and Sections 51.601 et seq.)	
of the Commission's Rules)	

EMBARQ CORPORATION'S COMMENTS

Embarq Corporation,¹ on behalf of its incumbent local, competitive local, long distance, and wireless divisions, hereby respectfully Reply to Comments filed on the above-referenced Petition on July 31, 2006. As hereinafter demonstrated, NewPhone's Petition must be denied.

Essentially, NewPhone seeks a ruling modifying ILEC resale obligations with regard to certain promotions (e.g., giveaways and mixed service bundles) such that the retail price of the telecommunications service must be reduced to reflect the value of cash-back promotions and similar giveaways (e.g., gift cards) and the value of any non-telecommunications services offered in a mixed service bundle, i.e., a bundle consisting of telecommunications and non-telecommunications services, before the wholesale discount is applied. In support, the Joint Commenters summarized the relief sought by NewPhone as:

¹ On May 17, 2006, Sprint Nextel Corporation transferred the Sprint Local Operating Companies that were Sprint's incumbent local exchange carrier operations by means of a stock dividend to shareholders and the creation of a new holding company, Embarq Corporation. The former Sprint Local Telephone Operating Companies are now subsidiaries of Embarq Corporation and are independent of Sprint Nextel Corporation. Additionally, Embarq Corporation's subsidiaries, Embarq Communications, Inc. and Embarq Communications of Virginia, Inc. provide long distance and wireless services.

Accordingly, the Joint Commenters maintain that the Commission must act swiftly to ensure that resale remains a viable alternative for competitiors and consumers by declaring *inter alia* that ILECs are required under the Act and the Commission's rules to ensure that resellers are able to resell at the "effective retail rate" of the telecommunications services included in an ILEC's cash-back, non-cash back, and bundled service promotions, minus the wholesale discount, in cases where such promotions last longer than 90 days.²

Notwithstanding NewPhone, and Joint Commenters claims of legal requirements and competitive needs, Embarq believes BellSouth has correctly recognized that the instant Petition is nothing more than an attempt to reduce ILEC prices further than required by law or needed for a competitive marketplace:

It is clear that NewPhone's complaint is nothing more than a dispute about pricing. NewPhone wants to obtain additional resale discounts that are plainly not mandated by the 1996. As BellSouth demonstrates more fully below, cash-back promotions, gift cards, checks, coupons and similar marketing incentives are neither "telecommunications services" nor "promotional discounts" subject to the resale requirements of the 1996 Act.³

Indeed, Embarq believes that BellSouth and the other RBOCs⁴ persuasively demonstrate why, from a legal perspective and public policy perspective, NewPhone's Petition cannot and should not be granted. Embarq does not intent to belabor the record by repeating their arguments in full, but rather wants to emphasis certain key points.

The first is the recent decision by a North Carolina district court referenced by BellSouth. In this decision the United States District Court for the Western District of North Carolina already correctly interpreted the law in ruling against NewPhone's position in NewPhone's dispute with BellSouth.⁵ That case involved orders of the North Carolina Utilities Commission

³ Opposition of BellSouth Corporation, filed July 31, 2006, at p. 3.

² Joint Comments, filed July 31, 2006, at p. 4.

⁴ Opposition of AT&T Inc., filed July 31, 2006; Opposition of Qwest Corporation, filed July 31, 2006; and Opposition of Verizon to Image Access, Inc.'s Petition for Declaratory Ruling, filed July 31, 2006.

⁵ BellSouth Telecommunications, Inc., v. Sanford, et al., 3:05CV345-MU, 2006 U.S. Dist. LEXIS 34265 (W.D.N.C. May 15, 2006)

("NCUC") holding that marketing incentives or giveaways offered in conjunction with telecommunication services for a period exceeding 90 days were promotions that effectively reduce the retail price of the telecommunication service for purposes of applying the wholesale discount.

In striking down the NCUC orders, and thus NewPhone's position in that case (and thus in the instant Petition), the District Court held:

In its First Report and Order, the FCC stated in unambiguous terms that "promotions" refers only to "price discounts from standard offering that will remain available for resale at wholesale rates, i.e., temporary price discounts." [Citation omitted.] Had the FCC wished to include marketing incentives such as Walmart gift cards in the definition of "promotions," it could have easily done so. The marketing incentives at issue here do not give the customer a reduction or discount on the price of the telecommunications services provided by BellSouth. ... The NCUC's Orders purport to extend the definition of promotional discounts to include anything of economic value. The court believes that this interpretation is contrary to the plain language of the statute and the FCC implementing regulations. 6

COMPTEL argues that the district court misunderstood the Commission's language limiting promotions available for resale to price discounts, offered for more than 90 days, on a retail telecommunications service.

Certain language in the Commission's *Local Competition Order*, nevertheless, has caused confusion for the U.S. District Court for the Western District of North Carolina – for which Commission clarification is needed – as to what constitutes a promotion or discount subject to the resale discount. Specifically, the North Carolina District Court, ... cited the Commission's statement that promotions refer to "price discounts from standard offerings that will remain available for resale at wholesale rates, i.e., temporary price discounts.⁷

⁶ *Id.*, 2006 U.S. Dist. LEXIS *9 - *10.

⁷ Comments of COMPTEL in Support of Newphone's Petition for Declaratory Ruling, filed July 31, 2006, at pp. 4-5 citing *Local Competition Order*, ¶ *948* (Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 Interconnection between Local Exchange Carrier and Commercial Mobile Radio Service Providers, 11 FCC Rcd 1, ¶ 948 (1996)("Local Competition Order").

Embarq believes that it is COMPTEL that misunderstands the Commission's language in the *Local Competition Order*. As Verizon explains:

While § 252(d)(3) specifies how to calculate the wholesale discount, it does not define "retail rate," as the Commission noted in the *Local Competition Order*. [Citation omitted.] The Commission accordingly adopted a definition in that order, for purposes of determining how promotional offers would affect the "retail rate." The Commission held that "only ... price discounts from standard offerings ... i.e., temporary price discounts" on incumbent LEC's retail telecommunications services would affect retail rates, and then only if the discounts are offered for more than 90 days. [Citation omitted.] The Commission thus declined to include in the definition of a "promotion," for purposes of ascertaining the retail rate, the many items of value other than a price discount that an incumbent LEC migh offer customers to induce them to sign up for service.⁸

Further, Embarq believes that the District Court's and Verizon's reading of the Commission promotion language is equally applicable to mixed bundles of telecommunications and non-telecommunications services. Non-telecommunications services are not part of the standard offering of telecommunications and cannot, contrary to NewPhone's position, be used to create a reduction or discount on the price of the telecommunications service. Such a result would, as the District Court held with regard to giveaways, be contrary to the plain language of the statute and the FCC's implementing regulations.

Second, Embarq agrees with Qwest's argument that granting NewPhone's Petition would allow the CLECs to unlawfully double the marketing cost component of the wholesale discount.

It follows that granting NewPhone's request would allow CLECs to double dip on marketing costs, and would require the ILEC to offer a discount that is greater than its avoided costs. This is because to the extent the market incentive [e.g., gift card] has a cost, those types of marketing costs have already been considered when the state commission determined the avoided cost discount percentage. Reducing the actual retail rate charged to subscribers by the incentive's supposed value to the subscriber in order to calculate an "effective"

⁸ Opposition of Verizon to Image Access, Inc.'s Petition for Declaratory Ruling at p. 5.

retail price," as argued by NewPhone, would for all practical purposes include that amount twice.

And, Owest goes on to note the same double-dipping effect occurs if NewPhone's Petition is granted, allowing the reduction in the retail price of the telecommunications service, by the value of non-telecommunications services in mixed-bundles.

Here again, NewPhone would have the ILEC subsidize the CLEC's sales. The resale price to the CLEC would not be reduced based upon avoiding marketing, billing, collection and other costs. Instead, this additional reduction in the resale price would come about because of the perceived valued to customers of the non-ILEC or non-telecommunications services in the bundle. With requests (4) and (5) [NewPhone's request to reduce the price of the telecommunications service by the value of the non-telecommunications services in a mixed bundle] NewPhone again seeks to double-dip on marketing incentives. 10

Finally, the RBOCs argue that a grant of NewPhone's Petition is not warranted by any public policy argument and indeed would be anti-competitive because of the harm it would do ILECs.¹¹ Embarq agrees. Numerous market indicators demonstrate that, contrary to NewPhone's arguments, numerous competitors are vigorously and successfully competing against the ILECs.

Driving much of the robustness in the local telecommunications marketplace is the significant increase in residential telephone subscribers to cable companies' telephony offers. According to the National Cable Television Association ("NCTA"), the number of subscribers increased from 3.5 million in December 2004 to 5.6 million at the end of 2005, a remarkable 160% increase. 12 Interestingly, Comcast, in announcing its earning on July 27, 2006, attributed

¹⁰ Id., at p. 10.

⁹ Opposition of Qwest Corporation at p. 6.

¹¹ See, e.g., Opposition of Verizon to Image Access, Inc.'s Petition for Declaratory Ruling at pp. 11-12, Opposition of BellSouth Corporation at pp. 3-4, and Opposition of AT&T Inc at p. 7.

¹² Statistics, Residential Telephony Customers, National Cable and Telecommunications Association. http://www.ncta.com/ContentView.aspx?contentId=61

much of their strong growth to their telephony product and predicted that it was only a beginning:

Brian L. Roberts, Chairman and CEO of Comcast Corporation said, "Record results for the 2nd quarter highlight the continued strength of our business and the power of our connection to our customers. This terrific performance included another quarter of double-digit revenue and Operating Cash Flow growth and the highest level of second quarter RGU additions in the Company's history. In particular, the rapid growth of Comcast Digital Voice demonstrates its massive appeal - and we are just getting started. As we continue to roll out our triple play offer, we are now more confident than ever that it represents a meaningful engine for growth and a significant advantage over our competition."

Further contributing to the intense competitive pressures on ILECs and the growth of competition is the fact that, as the Commission recently found, "the number of VoIP subscribers has grown from about 150 thousand at the end of 2003 to 4.2 million at the end of 2005.¹⁴ Vonage, the leader provider of VoIP services alone served in excess of 1.853 million lines as of June 30, 2006, having added in excess of a net 1 million lines during the 12 months ending June 30, 2006.¹⁵

Clearly, this robust competition from cable companies and VoIP subscribers has occurred without resorting to distorted pricing proposals such as NewPhone's which have no support in the law and are unnecessary as a matter of public policy.

http://www.cmcsk.com/phoenix.zhtml?c=118591&p=irolnewsArticle&ID=888266&highlight.

¹⁴ In the Matter of Universal Service Contribution Methodology, __ FCC Rcd __, 2006 FCC LEXIS 3668, WC Docket No. 06-122, Report and Order and Notice of Proposed Rulemaking, FCC 06-94, released June 27, 2006, ¶ 3, citing Telecommunications Industry Association, TIA's 2006 Telecommunications Market Review and Forecast, 71 (2006).

¹⁵ Vonage Holdings Corp. Reports Second Quarter 2006 Results

⁻ Company Introduces Key Milestone Targets - - Revenue More Than Doubles to \$143 Million From a Year Ago - - Over 1 Million Net Subscriber Lines Added in Last Year - - Non-GAAP Adjusted Loss from Operations Narrows to \$60 Million - HOLMDEL, N.J., Aug 01, 2006 /PRNewswire-FirstCall via COMTEX News Network/, http://ir.vonage.com/releasedetail.cfm?ReleaseID=205853

Furthermore, the success of the cable companies and VoIP providers in competing with ILECs is, at least in part, due to their aggressive use of bundles of telecommunications services and mixed bundles of telecommunications services and non-telecommunications services.

For instance, Time Warner Cable, which competes against Embarq in its Gardner, Kansas exchange, among others, offers one price for Digital Phone, a bundle of unlimited local and long distance calls as well as calling features such as Caller ID; as well as one price for its All n One package which combines traditional telephone voice and calling features (e.g., call waiting, speed dial) with cable modem service and video service. Likewise, Vonage, which also competes with Embarq, offers one price for unlimited calls to anywhere in the United States plus telephony features such as Caller ID with Name and Information Services like Voicemail. 17

In order to compete on a retail level, ILECs must be allowed, as their competitors are, to continue to offer competitive giveaways and mixed bundles. However, ILECs cannot continue to make viable offers to compete with the cable companies and VoIP providers if in doing so, the ILEC is also forced to finance and subsidize their reseller competitors' promotions, as will be the case if NewPhone's Petition is granted. Such a result will constrain ILECs to being solely wholesale providers, a situation that the Eighth Circuit, in rejecting the Commission's original scheme for calculating the wholesale discount on avoidable rather than actual avoided cost, held was specifically disallowed by the Telecommunications Act of 1996.¹⁸

The statute recognizes that the ILEC will itself remain a retailer of telephone service with its own continuing cost of providing that retail telephone service. The FCC's rule treats the ILEC as if it were strictly a wholesaler whose sole business is to supply local telephone service in bulk to new purveyors of retail telephone service. ... The FCC's rule is contrary to the statute. ¹⁹

¹⁶ An example of Time Warner Cable's offering in Gardner, Kansas is attached hereto as Attachment A.

¹⁷ An example of Vonage's offering is attached hereto as Attachment B.

¹⁸ Pub. L. No. 104 -104, 110 Stat. 56.

¹⁹ Iowa Utilities Board v. FCC, 219 F.3d 744, 755 (2000).

If granted, NewPhone's Petition would relegate ILECs to solely being wholesale provider. It would prevent ILECs' ability to make responsible business decisions about its own revenues and costs and ability to fund the bundles necessary to compete without also, as pointed out be Qwest²⁰ and AT&T,²¹ being forced to subsidize resellers. Effectively casting ILECs in the role of just a wholesaler, will prevent the ILEC from developing the offers that customers want and that ILEC competitors, who are free of any discounted resale obligations, are offering. Such a result would, in Embarq's opinion, be contrary to the Act on both a legal and policy level.

Accordingly, NewPhone's Petition must be denied.

Respectfully submitted,

EMBARQ CORPORATION

By

Craig T. Smith

5454 W. 110th Street

Overland Park, KS 66211

(913) 345-6691

Craig.T.Smith@Embarq.com

August 10, 2006

²¹ Opposition of AT&T Inc., at p. 1.

²⁰ Opposition of Qwest Corporation at p. 10.

CERTIFICATE OF SERVICE

I hereby certify that a copy of Embarq Corporation's Comments in WC Docket 06-129 was delivered by electronic mail and postage pre-paid, first class, U.S. mail on this 10th day of August 2006 to the parties listed below.

Craig T. Smith

ECFS

Marlene Dortch Secretary Federal Communications Commission 445 12th Street, SW Washington, DC 20554

VIA E-MAIL

Lynne Hewitt Engledow Pricing Policy Division Wireline Competition Bureau Federal Communications Commission Room 5-A361 445 12th Street, SW, Rm. 5-C140 Washington, DC 20554 lynne.engledow@fcc.gov

Best Copy and Printing, Inc.
Portals II
445 12th Street, SW, Rm. CY-B402
Washington, DC 20554
fcc@bcpiweb.com

John J. Heitmann
Thomas Cohen
Scott A. Kassman
Kelley Drye & Warren LLP
3050 K Street, N.W., Suite 400
Washington, DC 20007
JHeitmann@KelleyDrye.com
SKassman@KelleyDrye.com

Karen Reidy COMPTEL 1900 M Street, NW, Suite 800 Washington, DC 20036

VIA U.S. MAIL

Scott H. Angstreich KELLOGG, HUBER, HANSEN, TODD, EVANS & FIGEL, P.L.L.C. 1615 M Street, N.W. Suite 400 Washington, D.C. 20036

Craig J. Brown
Daphne E. Butler
Qwest
Suite 950
607 14th Street N.W.
Washington, DC 20005

Richard M. Sbaratta Angela N. Brown BellSouth Corporation Suite 4300 675 Peachtree Street, N.E. Atlanta, Georgia 30375-0724

SouthEast Telephone, Inc. 119 Second Street Pikeville, KY 41501 Karen Zacharia Amy P. Rosenthal VERIZON 1515 North Courthouse Road Suite 500 Arlington, VA 22201-2909

Christopher M. Heimann Gary L. Philips Paul K. Mancini AT&T Inc. 1120 20th Street, NW Washington, D.C. 20036

Henry Walker Boult, Cummings, Conners & Berry PLC 1600 Division Street, Suite 700 P.O. Box 340025 Nashville, TN 37203

Karen Reidy COMPTEL 1900 M Street, NW, Suite 800 Washington, DC 20036

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